

**CITY OF SOLON, IOWA
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
June 30, 2005**

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CITY OF SOLON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rick Jedlicka	Mayor	December 31, 2007
Sue Ballantyne	Council Member	December 31, 2007
Jim Brumwell	Council Member	December 31, 2005
Mark Krall	Council Member	December 31, 2005
Kevin Samek	Council Member	December 31, 2007
Scott Shulista	Council Member	December 31, 2005
Tracey Mulcahey	City Administrator	Indefinite
Connie Evans	City Clerk	Indefinite
Bruce Goddard	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Solon, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Solon, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Solon as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 10, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Solon's basic financial statements. The supplemental information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
September 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Solon, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased from fiscal 2004 to fiscal 2005 due to tax increment financing collections of approximately \$102,984. Permit fees and recoupment fees increased, due largely to increased residential development.

The City's expenses increased during this fiscal year by 14.13%, or approximately \$236,013, due to purchases in the public works department and business type enterprises.

The governmental funds cash balance decreased by 12.42%, or approximately \$98,423.

The City's long-term debt decreased by \$95,000 and the short-term debt decreased by \$26,739.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Governmental funds.

Reporting the City as a Whole

The statement of activities and changes in cash balance presents information showing how the City's cash balance changed during the most recent fiscal year.

The City's government activities are displayed in the statement of activities and changes in cash balance. Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-Type Activities include the waterworks, the sanitary sewer system, solid waste and the storm sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The fund financial statements provide detailed information about individual, significant funds; not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water (including storm water), solid waste and sewer funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the City reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principals (GAAP). The City does not report capital assets or depreciation on those assets as would be required by GAAP.

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$1,052,654 to \$895,115. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

Receipts and transfers:

Program receipts:

Charges for service	\$ 163,330
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General receipts:

Property tax	378,817
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TIF and other	102,984
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Use of money and property	16,243
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Licenses and permits	6,646
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Intergovernmental	308,185
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Other general receipts	<u>174,424</u>
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Total receipts and transfers	<u>1,150,629</u>
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Disbursements and transfers:	
Public safety	87,401
Public works	465,436
Culture and recreation	156,286
General government	162,405
Debt service	24,420
Capital projects	267,236
Transfers, net	<u>85,777</u>
Total disbursements and transfers	<u>1,248,991</u>
Decrease in cash basis net assets	(98,362)
Cash basis net assets, beginning of year	<u>792,706</u>
Cash basis net assets, end of year	<u>\$ 694,344</u>

The City's total receipts for governmental activities increased by 18.66%, or \$203,824. The total cost of all programs and services increased by \$285,607, or 25.76%, with no new programs added this year.

The City property tax rates for 2005 increased slightly from 10.00310 last year to 10.09885, with an increase in special revenue levy. Based on increases in the total assessed valuation for the last few years, property tax receipts are budgeted to increase next year.

The cost of all governmental activities this year was \$1,248,991, compared to \$1,108,537 last year. However, as shown in the Statement of Activities and Net Assets on pages 14-17, the amount taxpayers ultimately financed for these activities was lower because some of the cost was paid by those who directly benefited from the programs (charges for service \$174,493) or by other governments and organizations that subsidized certain programs with grants and contributions (\$435,748). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2005 from \$537,688 to \$610,241. The City paid for the remaining "public benefit" portion of governmental activities with \$552,973 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business-Type Activities

Receipts and transfers:	
Program receipts:	
Charges for service:	
Water	\$ 147,130
Sewer	222,029
Intergovernmental	41,500
Operating grants, contributions and restricted interest	1,997
Transfers	<u>40,684</u>
Total receipts and transfers	<u>453,340</u>

Disbursements and transfers:	
Water	235,334
Sewer	255,976
Transfers	<u>21,207</u>
Total disbursements and transfers	<u>512,517</u>
Decrease in cash basis net assets	(59,177)
Cash basis net assets, beginning of year	<u>259,948</u>
Cash basis net assets, end of year	<u>\$ 200,771</u>

Total business-type activities receipts and net transfers for the fiscal year were \$453,340 compared to \$373,361 last year. The cash balance decreased \$59,177 from the prior year. Total disbursements and transfers for the fiscal year decreased by 9.5% to a total of \$512,517.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Solon completed the year, its governmental funds reported a combined fund balance of \$895,115, a decrease of \$157,539 below last year's total of \$1,052,654. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$123,392 from the prior year. This decrease was due mainly to the purchase of a new maintenance vehicle, purchase of land, and other minor projects not previously budgeted for.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The proprietary fund cash balance decreased from \$259,948 to \$200,771, due primarily to expenses exceeding revenues.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, in May 2005. The amendment was approved on May 26, 2005 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$279,234 for culture and recreation, public works and capital projects, with an unbudgeted public works vehicle and the purchase of property for additional maintenance space accounting for the majority of this amount.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$1,311,000 in bonds and other long-term debt, compared to \$1,481,000 last year, as show below.

Outstanding Debt at Year End

	Year Ended June 30,	
	<u>2005</u>	<u>2004</u>
General obligation bonds and notes	\$1,481,000	\$1,311,000

The City does not carry a general obligation bond rating assigned by national rating agencies due to the small size of the City and the debt that we traditionally bond for; additionally, it is considered that the cost associated with obtaining such a rating would not be in line with any potential resulting savings or points discounted. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,311,000 is significantly below its constitutional debt limit of \$2,045,262.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Solon's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's population growth has increased on an average of 12% from 1,050 in 1990 to 1,177 in 2000. The estimated population at this time is 1,313. This compares with the state's population growth rate of approximately 6.9 percent and the national rate of 3.9 percent during this same time frame.

The U.S. Consumer Price Index (CPI) is a measure of the changes in retail prices of a fixed market grouping of consumer goods and services. The CPI-U for July 2004 was 189.4. The CPI-U for July 2005 was 195.4. For the 12 month period that ended in July, the CPI-U increased 3.17 percent.

It is anticipated that Solon's demand for new housing will remain viable as long as interest rates do not move sharply up. Building permits issued for new housing construction are averaging approximately 35 per year with four developments yet to finish. Solon relies heavily upon the residential tax base for funding programs within the City's general fund.

The City experienced increases in energy prices in 2004-2005. It is anticipated that energy costs will continue to rise in 2005-2006.

Property tax (benefiting from the increases in assessed valuations) and urban renewal tax increment financing collections are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out major urban renewal projects of the City. Budgeted disbursements are expected to rise due to increased wage and cost-of-living adjustments, increases in the sewer and water funds, street construction and maintenance and urban renewal projects represent the largest increases. The City has added no major new programs or initiatives to the 2006 budget.

PROPERTY TAX ROLL-BACK

The Iowa Department of Revenue issued its Assessment Limitation Order on October, 2003 with county auditors being ordered to adjust 2003 actual property values by the following percentages:

<u>Property Classification</u>	<u>FY2006</u>	<u>FY2005</u>	<u>FY2004</u>	<u>FY2003</u>
Residential	47.964%	48.4558%	51.3874%	51.6676%
Commercial	99.1509%	99.2570%	100%	97.7701%
Agricultural	100%	100%	100%	100%
Industrial	100%	100%	100%	100%

The January 1, 2004 property tax valuation serves as the basis for calculating property taxes in FY2006. Since 1978, residential, commercial and agricultural classifications have been subject to the assessment limitation order, or roll back, that limits annual growth in property to 4% with a further restriction that growth in residential property cannot exceed that of agricultural property. The result is an annual rolling-back of residential values. A significant decline in agricultural land productivity has resulted in low values on agricultural land for tax purposes. This low value has resulted in a significant adjustment to residential property taxes. It appears that residential roll-back will decrease further for valuations January 1, 2005 payable 2006-2007. The roll-back is projected to be 45.996%. It was hoped that the roll-back would recover slightly, in an even-numbered year without revaluation of existing properties and equalization orders being absent. However, once again the link to agricultural valuation growth forced the roll-back down. Without the link between residential and agricultural growth, the residential roll-back would have actually increased. The City of Solon has realized substantial residential growth in the last decade, which has partially off-set the decline attributable to the roll-back factor.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Connie Evans, City Clerk/Treasurer, 223 North Iowa Street, Solon, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF SOLON

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts</u>	
			<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 87,401	\$ 2,209	\$ 1,560	\$ -
Public works	465,436	65,016	-	203,736
Culture and recreation	156,286	26,839	90,024	5,000
General government	162,405	80,429	45,055	-
Debt service	24,450	-	48	-
Capital projects	<u>267,236</u>	<u>-</u>	<u>-</u>	<u>90,325</u>
Total governmental activities	<u>1,163,214</u>	<u>174,493</u>	<u>136,687</u>	<u>299,061</u>
Business type activities:				
Water	230,222	147,130	8,072	-
Water systems improvement	5,112	-	-	-
Sewer	255,976	222,029	35,065	-
Sewer replacement	<u>-</u>	<u>-</u>	<u>360</u>	<u>-</u>
Total business type activities	<u>491,310</u>	<u>369,159</u>	<u>43,497</u>	<u>-</u>
Total	<u>\$ 1,654,524</u>	<u>\$ 543,652</u>	<u>\$ 180,184</u>	<u>\$ 299,061</u>
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Miscellaneous				
Unrestricted interest on investments				
Transfers				
Total general receipts and transfers				

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets**

Governmental Activities	Business Type Activities	Total
\$ (83,632)	\$ -	\$ (83,632)
(196,684)	-	(196,684)
(34,423)	-	(34,423)
(36,921)	-	(36,921)
(24,402)	-	(24,402)
<u>(176,911)</u>	<u>-</u>	<u>(176,911)</u>
<u>(552,973)</u>	<u>-</u>	<u>(552,973)</u>
-	(75,020)	(75,020)
-	(5,112)	(5,112)
-	1,118	1,118
<u>-</u>	<u>360</u>	<u>360</u>
<u>-</u>	<u>(78,654)</u>	<u>(78,654)</u>
<u>(552,973)</u>	<u>(78,654)</u>	<u>(631,627)</u>
354,376	-	354,376
102,984	-	102,984
24,441	-	24,441
57,079	-	57,079
1,508	-	1,508
<u>(85,777)</u>	<u>19,477</u>	<u>(66,300)</u>
<u>454,611</u>	<u>19,477</u>	<u>474,088</u>

(continued)

CITY OF SOLON

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

		<u>Program Receipts</u>	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
			<u>Capital Grants, Contributions, and Restricted Interest</u>
Change in cash basis net assets			
Cash basis net assets, beginning of year			
Cash basis net assets, end of year			
Cash Basis Net Assets			
Restricted:			
Debt service			
Library			
Maintenance and improvements			
Other purposes			
Unrestricted			
Total cash basis net assets			

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(98,362)	(59,177)	(157,539)
<u>792,706</u>	<u>259,948</u>	<u>1,052,654</u>
<u>\$ 694,344</u>	<u>\$ 200,771</u>	<u>\$ 895,115</u>

\$ 9,879	\$ 17,000	\$ 26,879
367,880	-	367,880
-	73,339	73,339
36,257	-	36,257
<u>280,328</u>	<u>110,432</u>	<u>390,760</u>
<u>\$ 694,344</u>	<u>\$ 200,771</u>	<u>\$ 895,115</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

CITY OF SOLON

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds**

As of and for the year ended June 30, 2005

		<u>Special Revenue</u>	<u>Capital Projects</u>
	<u>General</u>	<u>Library Equipment</u>	<u>Hwy 1 Widening</u>
Receipts:			
Property tax	\$ 305,076	\$ -	\$ -
Tax increment financing collections	-	-	-
Licenses and permits	6,646	-	-
Use of money and property	4,148	7,937	-
Intergovernmental	120,409	2,073	77,876
Charges for service	162,725	-	-
Miscellaneous	<u>49,421</u>	<u>4,801</u>	<u>104,409</u>
Total receipts	<u>648,425</u>	<u>14,811</u>	<u>182,285</u>
Disbursements:			
Operating:			
Public safety	85,841	-	-
Public works	359,523	-	-
Culture and recreation	151,586	4,579	-
General government	162,405	-	-
Debt service	-	-	-
Capital projects	<u>-</u>	<u>-</u>	<u>266,786</u>
Total disbursements	<u>759,355</u>	<u>4,579</u>	<u>266,786</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(110,930)</u>	<u>10,232</u>	<u>(84,501)</u>
Other financing sources (uses):			
Payment of anticipatory notes	(66,300)	-	-
Operating transfers in	103,838	-	74,000
Operating transfers out	<u>(50,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(12,462)</u>	<u>-</u>	<u>74,000</u>

Other Nonmajor Governmental		
<u>Funds</u>	<u>Total</u>	
\$ 73,741	\$ 378,817	
102,984	102,984	
-	6,646	
4,158	16,243	
107,827	308,185	
605	163,330	
<u>15,793</u>	<u>174,424</u>	
<u>305,108</u>	<u>1,150,629</u>	
1,560	87,401	
105,913	465,436	
121	156,286	
-	162,405	
24,450	24,450	
<u>450</u>	<u>267,236</u>	
<u>132,494</u>	<u>1,163,214</u>	
<u>172,614</u>	<u>(12,585)</u>	
-	(66,300)	
17,255	195,093	
<u>(164,570)</u>	<u>(214,570)</u>	
<u>(147,315)</u>	<u>(85,777)</u>	

(continued)

CITY OF SOLON

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds**

As of and for the year ended June 30, 2005

		<u>Special Revenue</u>	<u>Capital Projects</u>
	<u>General</u>	<u>Library Equipment</u>	<u>Hwy 1 Widening</u>
Net change in cash balances	(123,392)	10,232	(10,501)
Cash balances, beginning of year	<u>372,931</u>	<u>357,648</u>	<u>(150)</u>
Cash balances, end of year	<u><u>\$ 249,539</u></u>	<u><u>\$ 367,880</u></u>	<u><u>\$ (10,651)</u></u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Library	-	367,880	-
Special revenue funds	-	-	-
Unreserved:			
General fund	249,539	-	-
Special revenue funds	-	-	-
Capital projects fund	<u>-</u>	<u>-</u>	<u>(10,651)</u>
Total cash basis fund balances	<u><u>\$ 249,539</u></u>	<u><u>\$ 367,880</u></u>	<u><u>\$ (10,651)</u></u>

Other Nonmajor Governmental Funds	<u>Total</u>
25,299	(98,362)
<u>62,277</u>	<u>792,706</u>
<u>\$ 87,576</u>	<u>\$ 694,344</u>
\$ 9,879	\$ 9,879
-	367,880
36,257	36,257
-	249,539
31,559	31,559
<u>9,881</u>	<u>(770)</u>
<u>\$ 87,576</u>	<u>\$ 694,344</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

CITY OF SOLON

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds				
	<u>Water</u>	<u>Water Systems Improvement</u>	<u>Sewer</u>	<u>Sewer Replacement</u>	<u>Total</u>
Operating receipts:					
Use of money and property	\$ 572	\$ -	\$ 1,065	\$ 360	\$ 1,997
Intergovernmental	7,500	-	34,000	-	41,500
Charges for service	<u>147,130</u>	<u>-</u>	<u>222,029</u>	<u>-</u>	<u>369,159</u>
Total operating receipts	155,202	-	257,094	360	412,656
Operating disbursements:					
Business type activities	<u>121,708</u>	<u>5,112</u>	<u>239,201</u>	<u>-</u>	<u>366,021</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	33,494	(5,112)	17,893	360	46,635
Non-operating disbursements:					
Debt service	<u>108,514</u>	<u>-</u>	<u>16,775</u>	<u>-</u>	<u>125,289</u>
Excess (deficiency) of disbursements over (under) receipts	<u>(75,020)</u>	<u>(5,112)</u>	<u>1,118</u>	<u>360</u>	<u>(78,654)</u>
Other financing sources (uses):					
Operating transfers in	27,475	13,209	-	-	40,684
Operating transfers out	<u>(13,209)</u>	<u>-</u>	<u>-</u>	<u>(7,998)</u>	<u>(21,207)</u>
Total other financing sources (uses)	<u>14,266</u>	<u>13,209</u>	<u>-</u>	<u>(7,998)</u>	<u>19,477</u>
Net change in cash balances	(60,754)	8,097	1,118	(7,638)	(59,177)
Cash balances, beginning of year	<u>60,334</u>	<u>32,220</u>	<u>126,734</u>	<u>40,660</u>	<u>259,948</u>
Cash balances, end of year	<u>\$ (420)</u>	<u>\$ 40,317</u>	<u>\$ 127,852</u>	<u>\$ 33,022</u>	<u>\$ 200,771</u>
Cash Basis Fund Balances					
Reserved for:					
Debt service \$	-	\$ -	17,000	\$ -	17,000
Maintenance and improvements	-	40,317	-	33,022	73,339
Unreserved	<u>(420)</u>	<u>-</u>	<u>110,852</u>	<u>-</u>	<u>110,432</u>
Total cash basis fund balances	<u>\$ (420)</u>	<u>\$ 40,317</u>	<u>\$ 127,852</u>	<u>\$ 33,022</u>	<u>\$ 200,771</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

CITY OF SOLON

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Solon is a political subdivision of the State of Iowa located in Johnson County. It was first incorporated in 1840 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water and sewer services for its customers.

A. Reporting Entity and Jointly Governed Organizations

For financial reporting purposes, the City of Solon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Solon has no component units which meet the Governmental Accounting Standards Board criteria.

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following jointly governed boards and commissions:

Johnson County Solid Waste Management Planning
Johnson County Rural Policy Board
Johnson County Assessor's Conference Board
Johnson County Joint E911 Service Board

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF SOLON

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from the other funds.

The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Library Equipment Fund is used for purchasing of computer hardware and software.

CITY OF SOLON

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Solon maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works, culture and recreation, and debt service functions.

(2) Deposits and Investments

Deposits (cash and certificates of deposit) are carried at cost which approximates market value. The carrying amount of deposits at June 30, 2005 is \$895,115 (including certificates of deposit totaling \$209,958) and is shown as the total end of year balance in the financial statements. The City's deposits at June 30, 2005, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF SOLON

Notes to Financial Statements

June 30, 2005

(2) Deposits and Investments (continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

During the year ended June 30, 2005, the City's excess cash was invested in certificates of deposit and interest-bearing checking accounts.

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds & Notes	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 140,000	\$ 55,034
2007	150,000	50,153
2008	130,000	44,502
2009	101,000	39,222
2010	106,000	35,023
2011	111,000	30,465
2012	112,000	25,535
2013	122,000	20,425
2014	128,000	14,675
2015	118,000	8,535
2016	13,000	2,790
2017	14,000	2,400
2018	14,000	1,980
2019	15,000	1,560
2020	15,000	1,110
2021	15,000	660
2022	<u>7,000</u>	<u>210</u>
Total	<u>\$ 1,311,000</u>	<u>\$ 334,279</u>

CITY OF SOLON

Notes to Financial Statements

June 30, 2005

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement Systems (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$12,872, \$12,716, and \$11,839, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of benefit</u>	<u>Amount</u>
Vacation	\$ 11,778
Sick leave	<u>34,034</u>
Total	<u>\$ 45,812</u>

This liability has been computed based on rates of pay as of June 30, 2005.

CITY OF SOLON
Notes to Financial Statements
June 30, 2005

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Road Use Tax Playground and Recreation	Special Revenue: Urban Renewal Tax Increment	\$ 8,193
	Recreation and Nature Center	<u>1,064</u>
		<u>9,257</u>
General Fund	Capital Project: OMC Sidewalk	2,058
	Special Revenue: Recreation and Nature Center	6,299
	Employee Benefits	24,954
	Urban Renewal Tax Increment	<u>70,527</u>
		<u>103,838</u>
Capital Project: Highway 1 Corridor	General Fund	50,000
	Special Revenue: Urban Renewal Tax Increment	24,000
Sewer Line Project	Enterprise: Sewer Replacement	<u>7,998</u>
		<u>81,998</u>
Enterprise: Water Improvements Water	Enterprise: Water	<u>13,209</u>
	Capital Projects: Capital Improvements	<u>27,475</u>
Total		<u>\$ 235,777</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$33 during the year ended June 30, 2005.

CITY OF SOLON

Notes to Financial Statements

June 30, 2005

(8) Risk Management

The City of Solon is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Commitments

The City entered into an installment purchase agreement for a wheel loader in fiscal year 2003. The rate of interest charged under the agreement is 3.99%. The final payment is due in fiscal year 2008. As of June 30, 2005, \$20,249 remains to be paid.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences* were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOLON

**Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances-
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 378,817	\$ -	\$ -
Tax increment financing collections	102,984	-	-
Licenses and permits	6,646	-	-
Use of money and property	16,243	1,997	-
Intergovernmental	308,185	41,500	-
Charges for service	163,330	369,159	-
Miscellaneous	<u>174,424</u>	<u>-</u>	<u>-</u>
Total receipts	<u>1,150,629</u>	<u>412,656</u>	<u>-</u>
Disbursements:			
Public safety	87,401	-	-
Public works	465,436	-	-
Culture and recreation	156,286	-	-
General government	162,405	-	-
Debt service	24,450	-	-
Capital projects	267,236	-	-
Business type activities	<u>-</u>	<u>491,310</u>	<u>-</u>
Total disbursements	<u>1,163,214</u>	<u>491,310</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(12,585)	(78,654)	-
Other financing sources, net	<u>(85,777)</u>	<u>19,477</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(98,362)	(59,177)	-
Balances, beginning of year	<u>792,706</u>	<u>259,948</u>	<u>-</u>
Balances, end of year	<u>\$ 694,344</u>	<u>\$ 200,771</u>	<u>\$ -</u>

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 378,817	\$ 374,951	\$ 374,951	\$ 3,866
102,984	103,440	103,440	(456)
6,646	19,700	10,145	(3,499)
18,240	10,356	15,098	3,142
349,685	278,080	271,462	78,223
532,489	485,688	560,817	(28,328)
<u>174,424</u>	<u>137,360</u>	<u>230,243</u>	<u>(55,819)</u>
<u>1,563,285</u>	<u>1,409,575</u>	<u>1,566,156</u>	<u>(2,871)</u>
87,401	90,520	92,914	5,513
465,436	597,898	421,515	(43,921)
156,286	126,763	152,730	(3,556)
162,405	105,615	223,732	61,327
24,450	24,200	24,200	(250)
267,236	-	271,798	4,562
<u>491,310</u>	<u>443,603</u>	<u>514,827</u>	<u>23,517</u>
<u>1,654,524</u>	<u>1,388,599</u>	<u>1,701,716</u>	<u>47,192</u>
(91,239)	20,976	(135,560)	44,321
<u>(66,300)</u>	<u>-</u>	<u>(171,514)</u>	<u>105,214</u>
(157,539)	20,976	(307,074)	149,535
<u>1,052,654</u>	<u>1,299,552</u>	<u>1,481,361</u>	<u>(428,707)</u>
<u>\$ 895,115</u>	<u>\$ 1,320,528</u>	<u>\$ 1,174,287</u>	<u>\$ (279,172)</u>

This information should be read only in connection with the accompanying independent auditor's report.

CITY OF SOLON

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2005

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$342,059. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation, public works, and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SOLON

Statement of Cash Receipts, Disbursements and Changes in Cash Balances Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue					
	<u>TIF Property Tax</u>	<u>Playground & Recreation Equipment</u>	<u>Fire Depart- ment</u>	<u>Recreation & Nature Center</u>	<u>Road Use Tax</u>	<u>Employee Benefits</u>
Receipts:						
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,926
Tax increment financing collections	102,984					
Use of money and property	-	1,149	-	1,985	-	-
Intergovernmental	-	-	-	-	99,327	-
Charges for service	-	605	-	-	-	-
Miscellaneous	-	4,121	-	8,700	-	-
Total receipts	<u>102,984</u>	<u>5,875</u>	<u>-</u>	<u>10,685</u>	<u>99,327</u>	<u>23,926</u>
Disbursements:						
Operating:						
Public safety	-	-	1,560	-	-	-
Public works	-	-	-	-	105,913	-
Culture and recreation	-	-	-	121	-	-
Debt service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>1,560</u>	<u>121</u>	<u>105,913</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	102,894	5,875	(1,560)	10,564	(6,586)	23,926
Other financing sources (uses):						
Operating transfers in	-	-	-	1,064	8,193	-
Operating transfers out	<u>(102,720)</u>	<u>(1,064)</u>	<u>-</u>	<u>(6,299)</u>	<u>-</u>	<u>(24,954)</u>
Total other financing sources (uses)	<u>(102,720)</u>	<u>(1,064)</u>	<u>-</u>	<u>(5,235)</u>	<u>8,193</u>	<u>(24,954)</u>
Net change in cash balances	264	4,811	(1,560)	5,329	1,607	(1,028)
Cash balances, beginning of year	<u>-</u>	<u>21,777</u>	<u>682</u>	<u>5,218</u>	<u>30,716</u>	<u>-</u>
Cash balances, end of year	<u>\$ 264</u>	<u>\$ 26,588</u>	<u>\$ (878)</u>	<u>\$ 10,547</u>	<u>\$ 32,323</u>	<u>\$ (1,028)</u>

<u>Capital Projects</u>				
<u>Capital Improvement</u>	<u>Sewer Line Project</u>	<u>OMC Sidewalk</u>	<u>Debt Service</u>	<u>Total</u>
\$ 25,374	\$ -	\$ -	\$ 24,441	\$ 73,741
-	-	-	-	102,984
732	244	-	48	4,158
-	8,500	-	-	107,827
-	-	-	-	605
-	<u>2,972</u>	-	-	<u>15,793</u>
<u>26,106</u>	<u>11,716</u>	-	<u>24,489</u>	<u>305,108</u>
-	-	-	-	1,560
-	-	-	-	105,913
-	-	-	-	121
-	-	-	24,450	24,450
-	-	<u>450</u>	-	<u>450</u>
-	-	<u>450</u>	<u>24,450</u>	<u>132,494</u>
26,106	11,716	(450)	39	172,614
-	7,998	-	-	17,255
<u>(27,475)</u>	<u>-</u>	<u>(2,058)</u>	<u>-</u>	<u>(164,570)</u>
<u>(27,475)</u>	<u>7,998</u>	<u>(2,058)</u>	<u>-</u>	<u>(147,315)</u>
(1,369)	19,714	(2,508)	39	25,299
<u>1,722</u>	<u>(9,736)</u>	<u>2,058</u>	<u>9,840</u>	<u>62,277</u>
<u>\$ 353</u>	<u>\$ 9,978</u>	<u>\$ (450)</u>	<u>\$ 9,879</u>	<u>\$ 87,576</u>

(continued)

CITY OF SOLON

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds**

As of and for the year ended June 30, 2005

	<u>Special Revenue</u>					
	<u>TIF Property Tax</u>	<u>Playground & Recreation Equipment</u>	<u>Fire Depart- ment</u>	<u>Recreation & Nature Center</u>	<u>Road Use Tax</u>	<u>Employee Benefits</u>
Cash Basis Fund Balances						
Reserved:						
Special revenue funds	\$ -	\$ 26,588	\$ (878)	\$ 10,547	\$ -	\$ -
Debt service	-	-	-	-	-	-
Unreserved:						
Special revenue funds	264	-	-	-	32,323	(1,028)
Capital project funds	-	-	-	-	-	-
Total cash basis fund balance	<u>\$ 264</u>	<u>\$ 26,588</u>	<u>\$ (878)</u>	<u>\$ 10,547</u>	<u>\$ 32,323</u>	<u>\$ (1,028)</u>

<u>Capital Projects</u>				
<u>Capital Improvement</u>	<u>Sewer Line Project</u>	<u>OMC Sidewalk</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 36,257
-	-	-	9,879	9,879
-	-	-	-	31,559
<u>353</u>	<u>9,978</u>	<u>(450)</u>	<u>-</u>	<u>9,881</u>
<u>\$ 353</u>	<u>\$ 9,978</u>	<u>\$ (450)</u>	<u>\$ 9,879</u>	<u>\$ 87,576</u>

CITY OF SOLON
Schedule of Indebtedness
Year ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and capital loan notes:			
1992 Fire Station	March 01, 1992	6.00%	\$ 250,000
1995 Storm Drainage	Dec. 01, 1995	5.20%	189,000
2001 Water Meters	Jan. 01, 2001	4.90-5.00%	115,000
2002 Highway 1	July 01, 2002	3.40-5.10%	1,180,000
2003 Sewer Improvements	Oct. 27, 2003	3.00%	225,000
2003 Sidewalk Improvements	July 30, 2003	2.00%	65,000
Total			

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 70,000	\$ -	\$ 20,000	\$ 50,000	\$ 4,200	\$ -
25,000	-	-	25,000	650	-
50,000	-	25,000	25,000	2,475	-
1,055,000	-	50,000	1,005,000	47,258	-
216,000	-	10,000	206,000	6,775	-
65,000	-	65,000	-	1,300	-
<u>\$ 1,481,000</u>	<u>\$ -</u>	<u>\$ 170,000</u>	<u>\$ 1,311,000</u>	<u>\$ 62,658</u>	<u>\$ -</u>

CITY OF SOLON

Bond and Note Maturities

June 30, 2005

General Obligation Bonds and Capital Loan Notes				
Year Ending June 30,	2003 Sewer Improvements Issued October 27, 2003		2002 Highway 1 Issued July 1, 2002	
	Interest Rates	Amount	Interest Rates	Amount
2006	3.00%	\$ 10,000	3.70%	\$ 55,000
2007	3.00	10,000	4.00	115,000
2008	3.00	10,000	4.15	120,000
2009	3.00	11,000	4.30	90,000
2010	3.00	11,000	4.45	95,000
2011	3.00	11,000	4.60	100,000
2012	3.00	12,000	4.75	100,000
2013	3.00	12,000	4.90	110,000
2014	3.00	13,000	5.00	115,000
2015	3.00	13,000	5.10	105,000
2016	3.00	13,000	-	-
2017	3.00	14,000	-	-
2018	3.00	14,000	-	-
2019	3.00	15,000	-	-
2020	3.00	15,000	-	-
2021	3.00	15,000	-	-
2022	3.00	<u>7,000</u>	-	<u>-</u>
Total		<u>\$ 206,000</u>		<u>\$1,005,000</u>

Schedule 3

<u>2001 Water Meters</u> <u>Issued Jan. 1, 2001</u>		<u>1995 Storm Drainage</u> <u>Issued Dec. 1, 1995</u>		<u>1992 Fire Station</u> <u>Issued March 1, 1992</u>		<u>Total</u>
<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	
5.00%	\$ 25,000	5.20%	\$ 25,000	6.00%	\$ 25,000	\$ 140,000
-	-	-	-	6.00%	25,000	150,000
-	-	-	-	-	-	130,000
-	-	-	-	-	-	101,000
-	-	-	-	-	-	106,000
-	-	-	-	-	-	111,000
-	-	-	-	-	-	112,000
-	-	-	-	-	-	122,000
-	-	-	-	-	-	128,000
-	-	-	-	-	-	118,000
-	-	-	-	-	-	13,000
-	-	-	-	-	-	14,000
-	-	-	-	-	-	14,000
-	-	-	-	-	-	15,000
-	-	-	-	-	-	15,000
-	-	-	-	-	-	15,000
-	-	-	-	-	-	7,000
	<u>\$ 25,000</u>		<u>\$ 25,000</u>		<u>\$ 50,000</u>	<u>\$1,311,000</u>

**Independent Auditor's Report on Internal Control
and on Compliance and Other Matters Based on Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Honorable Mayor and
Members of the City Council
Solon, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Solon, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 9, 2005. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Solon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Solon's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Solon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part III in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Solon and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Solon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Clifton Gunderson LLP

Cedar Rapids, Iowa
September 9, 2005

CITY OF SOLON

Schedule of Findings

Year ended June 30, 2005

Part I: Summary of Independent Auditor's Results

- (a) A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. A qualified opinion was issued on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, which was also considered a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF SOLON
Schedule of Findings
Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

Instances of non-compliance:

No matters were noted.

Reportable conditions:

II-A-05 Segregation of Duties

Criteria:

The City should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition:

The City does not have adequate segregation of duties over all accounting transactions.

Context:

Internal controls that are in place could be averted, overridden, or not consistently implemented.

Effect:

As result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:

The City has a limited number of personnel performing accounting functions.

Recommendation:

When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend the City review its operating procedures to obtain the maximum internal control possible under the circumstances.

Management Response:

With a limited number of office employees, segregation of duties is sometimes difficult. Management is aware of the lack of segregation of duties and has considered alternatives to improve the situation. Management is monitoring the situation and is segregating accounting duties where practical.

Part III: Other Findings Related to Statutory Reporting:

III-A-05 Official Depositories

Resolutions naming official depositories have been approved by the City. The maximum deposit amounts stated in the resolutions were not exceeded during the year ended June 30, 2005.

CITY OF SOLON

Schedule of Findings

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting (continued):

III-B-05 Certified Budget

Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the Culture and Recreation, Public Works, and Debt Service functions. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

III-C-05 Questionable Disbursements

We noted no expenditures for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-D-05 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-05 Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
James Brumwell, Council Member	Snow Removal Hauling	\$ 33

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member does not appear to represent a conflict of interest since the total transactions with him were less than \$1,500 during the fiscal year.

III-F-05 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF SOLON
Schedule of Findings
Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting (continued):

III-G-05 Council Minutes

Transactions were found that we believe should have been approved in the Council minutes but were not.

Recommendation - Transfers should be approved and documented in the Council minutes.

Response - The City agrees and will do so in the future.

Conclusion - Response accepted.

III-H-05 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

CITY OF SOLON

Audit Staff

This audit was performed by:

William M. Vincent, CPA, Audit Partner

Brad Hauge, CPA, Senior Manager

Tim Wood, CPA, Senior Associate

Jim Fitzpatrick, CPA, Associate